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| In the Matter of |) | |
| |) | |
| Access Charge Reform |) | CC Docket No. 96-262 |
| |) | |
| Price Cap Performance Review |) | CC Docket No. 94-1 |
| for Local Exchange Carriers |) | |
| |) | |
| Transport Rate Structure and Pricing |) | CC Docket No. 91-213 |

COMMENTS OF
SOUTHWESTERN BELL TELEPHONE COMPANY

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CC Docket No. 96-262

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SUMMARY¹

Even before the passage of the 1996 Act, the Commission's Part 69 access charge rules were in need of reform. Charges paid by IXC's for access services included subsidies that flowed to other services, producing an inefficient rate structure vulnerable to inefficient competitive entry and pricing arbitrage. While access reform was long overdue *before* passage of the 1996 Act, it became essential *after* passage of the 1996 Act. SWBT agrees with the Commission that "[c]ompetition isolates and highlights the inefficiencies and distortions present in the current Part 69 access charge rules." By design, unbundled elements are directly substitutable for switched and special access services provided by LECs. Interconnection pricing rules have had the practical effect of forcing LECs to price access at the levels of unbundled elements.

The clearest message in the proposals for access charge reform contained in the Commission's NPRM is that regulation of incumbent LECs' access rates is likely to continue for some time into the future. Of course, competitors of those ILECs will not be constrained by regulation, and they will be able to price and structure their services freely. An effective regulatory structure is one that is purposely absent in a competitive market. For incumbent LECs, the most critical aspects of access reform are the need for a pricing structure based on cost causative principles and the opportunity to recover their actual costs.

In Part II of these Comments, SWBT sets forth in detail its proposed plan for access reform. SWBT's plan for access reform involves a two step process. Step one is "prescriptive-oriented" and establishes efficient access prices by addressing public policy cost recovery issues. Step two is

¹The abbreviations and acronyms used in this Summary are defined in the body of these Comments and have the same meanings as used therein.

“market-oriented” and establishes a competitive access pricing structure. These steps should be implemented concurrently.

In step one, efficient access prices would be established by removing implicit support and other public policy costs. Those costs should be recovered from the cost causer or from new public policy elements when recovery from the cost causer is not possible because of public policy considerations. Step one includes the following: (1) Reduce CCL to account for Universal Service Fund changes and removal of LTS and pay telephone costs; (2) Eliminate CCL through changes to the SLC; (3) Implement a new end user port charge to reduce local switching prices; (4) Reallocate marketing expense pending separations reform; (5) Recover the TIC and its underlying costs through other access rate elements or public policy elements; (6) Lower special and dedicated switched transport prices to local interconnection price levels, with the difference to be recovered through public policy elements; and (7) Amortize the depreciation reserve deficiency over five years and recover such deficiency through a specific capital recovery charge to all IXC's.

Under SWBT's plan, the SLC would be incrementally increased over a two year period. SWBT anticipates nominal SLC increases of approximately \$0.65 per month at the end of year one and \$0.65 per month at the end of year two for residence and single line business customers. The new SLC cap would be approximately \$4.80, and the SLC for multiline business customers would be immediately lowered to that amount. SWBT estimates the end user port charge to be \$0.35 per line per month; these charges would recover the non-traffic sensitive cost of a switch port dedicated to an end user.

In step two of SWBT's plan, a market-oriented, flexible pricing structure that reflects the realities of the marketplace would be put in place. SWBT proposes that the Commission change its

rules to prescribe only public policy elements and to leave other rate structure issues to the marketplace. Pricing flexibilities should be based on the competitiveness of a particular market, and two market categories should be identified. The Open Market Category identifies markets in which competition has begun to develop as a result of facilities-based supply. It includes markets into which competitors have not yet entered even though SWBT has made interconnection and unbundled network elements available. The Effective Competition Category identifies markets in which competition is operating at levels sufficient to provide the price discipline needed to justify replacing price regulation. Finally, deregulation is appropriate when services satisfy the forbearance criteria set forth in the 1996 Act.

SWBT's plan also proposes that the ESP exemption be eliminated and replaced with a modified access charge structure. SWBT's plan would not apply public policy elements to those services that meet the "information service" definition contained in the 1996 Act. Otherwise, the elements of switched access service would apply to ESPs, but at the new price levels. SWBT's plan would also introduce pricing flexibility that will encourage LECs to deploy new technologies.

In these Comments, SWBT also addresses the approaches to access reform proposed in the NPRM and shows that SWBT's plan meets the goals of access reform more effectively than do the NPRM proposals. Under the NPRM's "market-based approach," the Commission proposed that regulation of ILECs be relaxed on a service-by-service, market-by-market basis in conjunction with meeting certain market triggers. ILECs do not, however, have the luxury of methodically, over an extended period of time, meeting all of those triggers. Direct substitutability of unbundled network elements constitutes imminent "potential," "actual," and "substantial" competition -- all at the same time.

Under its “prescriptive” approach, the Commission contemplated a phased-in move to TSLRIC-based access rates in a more predictable and uniform manner than in a market-based approach. This approach represents an inappropriately heavy regulatory hand that forces ILECs to price access services at forward-looking cost with only a vague and temporary possibility of revenue shortfall recovery. The prescriptive approach violates the deregulatory spirit of the 1996 Act. Also, access rates prescribed at TSLRIC levels would not necessarily be a byproduct of freely competitive markets. Finally, a prescriptive approach that does not provide an opportunity for full and ongoing recovery of actual LEC costs is fatally flawed.

The issues that the Commission must address in this docket are readily apparent. Now is the time to implement the deregulatory intent of the 1996 Act.

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COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company ("SWBT") hereby responds to the Notice of Proposed Rulemaking ("NPRM") herein, released by the Commission on December 24, 1996. In the NPRM, the Commission stated that the "fundamental changes in the structure and dynamics of the telecommunications industry wrought by the 1996 Act¹ now necessitate that the Commission review its existing access charge regulations to ensure that they are compatible with the 1996 Act's far-reaching changes."² In the lengthy, 352-paragraph NPRM and related actions,³ the Commission asked numerous questions and offered a number of tentative conclusions concerning the manner in which "the Commission's Part 69 interstate access charge rules, together with its Part 61 price cap rules, . . . [should be revised] to establish fair rules of competition for both the local exchange and interexchange markets, especially as carriers begin to offer service packages that bundle local and

¹Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56, codified at 47 U.S.C. §§ 151 *et seq* ("1996 Act").

²NPRM, ¶ 5.

³The document released by the Commission included a Notice of Proposed Rulemaking, Third Report and Order, and Notice of Inquiry ("NOI"). The NOI, CC Docket No. 96-263, has a separate comment cycle and is not addressed in this filing.

interexchange offerings.”⁴ In these Comments, SWBT will respond to those questions and tentative conclusions and will also present its plan for access charge reform.

I. INTRODUCTION⁵

The Commission accurately stated that the current access rules “reflected the reality of the telecommunications marketplace in 1983.”⁶ As the Commission explained, “our Part 69 rules expressly contemplated competition in the interexchange market, [but] they were not designed to address the potential effects of competition in the local exchange and exchange access market. . . . In adopting the Part 69 rules, the Commission did not seek to eliminate implicit support flows, but in fact incorporated such flows into the Part 69 rate structure.”⁷

Even before the passage of the 1996 Act, the Part 69 access charge rules were in need of reform. Charges paid by interexchange carriers (“IXCs”) for access services included subsidies that flowed to other services, producing an inefficient rate structure vulnerable to inefficient competitive entry and pricing arbitrage. The existing access rate structure, along with the advent of new technologies, created enormous opportunity for competitive providers to offer dedicated transport and switched access services to business end users at lower prices than incumbent local exchange carriers (“incumbent LECs” or “ILECs”)⁸ could charge. While access reform was long overdue *before* passage of the 1996 Act, it became essential *after* passage of the 1996 Act. As the Commission has pointed out repeatedly in various dockets, the 1996 Act “seeks to develop efficient

⁴NPRM, ¶ 5.

⁵This section addresses NPRM Section I.

⁶NPRM, ¶ 6.

⁷NPRM, ¶ 6.

⁸In the NPRM, the Commission limited the scope of this proceeding, with limited exceptions, to incumbent LECs subject to price cap regulation. In these Comments, for brevity and unless otherwise noted, the terms “incumbent LEC” and “ILEC” will be used synonymously to refer to incumbent LECs subject to price cap regulation. The term “LEC” will refer to any local exchange carrier.

competition by opening all telecommunications markets through a pro-competitive, deregulatory national policy framework. To that end, the 1996 Act eliminates state and local legal and regulatory barriers to entry”⁹ SWBT agrees that “[c]ompetition isolates and highlights the inefficiencies and distortions present in the current Part 69 access charge rules.”¹⁰

The clearest message in the NPRM proposals to reform the access charge rules¹¹ is that regulation of incumbent LECs’ access rates is likely to continue for some time into the future. Of course, competitors of those incumbent LECs will not be constrained by regulation, and they will be able to price and structure their services freely. As the Commission stated, the 1996 Act was intended to be both pro-competitive and *deregulatory*; such a purpose is appropriate since a competitive market cannot succeed if it is encumbered by unnecessary regulation. Rules that attempt to replicate the effects of competition are not needed when competitors are present in a market characterized by virtually unlimited supply, a market such as was created by the 1996 Act and by the Commission’s decision in CC Docket No. 96-98.¹² An effective regulatory structure is one that is purposely absent in a competitive market.

Furthermore, competitors, unlike incumbent LECs, are not required by regulators to serve all subscribers within their service areas. Incumbent LECs must have a reasonable opportunity to be compensated for the actual costs that they incurred pursuant to their current and past service obligations under regulation.

⁹NPRM, ¶ 2.

¹⁰NPRM, ¶ 7.

¹¹The Commission’s stated goal for this proceeding is “to end up with access charge rate structures that a competitive market for access services would produce.” NPRM, ¶ 13.

¹²Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, CC Docket No. 96-98, First Report and Order (“Interconnection Order”), 11 FCC Rcd 15499 (1996), Order on Reconsideration, 11 FCC Rcd 13042 (1996), *petition for review pending and partial stay granted, sub nom.* Iowa Utilities Board et al. v. FCC, No. 96-3321 and consolidated cases (8th Cir.), *partial stay lifted in part*, Iowa Utilities Board et al. v. FCC (8th Cir. Nov. 1, 1996).

In the NPRM,¹³ the Commission acknowledged the far-reaching effects of its Interconnection Order. In that Order, the Commission established rules implementing the 1996 Act's Section 251(c)(3) requirement that incumbent LECs furnish unbundled network elements to requesting carriers; the Commission's order, now on appeal, required the incumbent LECs to make those unbundled elements available at prices that recover only forward-looking cost. In the present docket, the Commission recognized that "the introduction of competition from providers operating their own network facilities or leasing network facilities as unbundled network elements may undermine these access rate structures."¹⁴ By design, unbundled elements are directly substitutable for switched and special access services provided by LECs. Interconnection pricing rules have had the practical effect of forcing LECs to price access at the levels of unbundled elements. The Commission must be willing to reverse the pricing maladies of its Interconnection Order by allowing incumbent LECs the opportunity to recover their actual costs.

For incumbent LECs, the most critical aspects of access reform are the need for a pricing structure based on cost causative principles and the opportunity to recover their actual costs. In this docket, the Commission must establish a plan for access reform that charts a course toward full and free marketplace competition.

¹³See, e.g., ¶ 8.

¹⁴NPRM, ¶ 8.

II. SWBT'S PLAN FOR ACCESS CHARGE REFORM: *PRESCRIPTIVE/MARKET-ORIENTED MODEL*¹⁵

SWBT sets forth in detail below its plan for access reform. Additional details supporting this plan are presented in Section III. SWBT's plan not only provides for fair competition in the provision of interstate access services, but also provides flexibility and fair compensation for the ILECs.

The current access structure cannot survive as competition grows in the local exchange and exchange access markets. Access reform that takes on and resolves implicit subsidies and addresses pricing flexibility, rate structure and common line issues will produce a framework that adapts to changing competitive marketplace conditions. As discussed in more detail in Section III below, neither the "market-based" approach nor the "prescriptive" approach as described in the NPRM¹⁶ recognize the urgency of access reform or provide incumbent LECs with sufficient flexibility to compete with carriers that will be able to utilize directly substitutable unbundled network elements priced based on forward-looking cost. Only SWBT's approach to access restructuring overcomes the pitfalls of the Commission's proposed approaches and satisfies the 1996 Act's deregulatory and pro-competitive pricing directives. SWBT's plan for access reform involves a two step process. Step one is "prescriptive-oriented" and initializes efficient access prices by addressing public policy cost recovery issues. Step two is "market-oriented" and establishes a competitive access pricing structure. Steps one and two should be implemented concurrently.

¹⁵This section addresses NPRM Sections III.B., C., D., E., F.; IV.B.; V.B., C.; VII. B.

¹⁶NPRM, ¶ 140-240.

A. STEP ONE — ESTABLISH EFFICIENT ACCESS PRICES.

Establishing efficient access prices involves adjusting access prices to remove implicit support and other public policy costs. These costs should be recovered from the cost causer or from new public policy elements when recovery from the cost causer is not possible due to public policy considerations.

1. Carrier Common Line Must First Be Reduced to Account for Universal Service Fund Changes, Long Term Support and Pay Telephone Costs

Carrier common line ("CCL") charges represent an implicit support flow from access to local exchange service. The amount of interstate high cost support ILECs receive from the new federal Universal Service Fund ("NUSF") should be used to reduce ILECs' interstate CCL rates. The required access charge reduction will depend on the method used to recover carrier contributions to the federal NUSF. If carrier contributions to the federal NUSF are recovered through a mandatory surcharge, as SWBT has proposed in its comments in CC Docket No. 96-45,¹⁷ then the entire amount of interstate high cost support that SWBT receives should be used to reduce its interstate CCL charges on a revenue neutral basis. SWBT would use any remaining interstate high cost support it receives to reduce its interstate switching charges on a revenue neutral basis. If carriers' contributions to the federal NUSF are not recovered through a mandatory surcharge, and remain implicit, then only the interstate high cost support SWBT nets on a positive basis after payments to the fund (i.e., NUSF high cost support received less fund contribution) should be used to reduce its interstate CCL charges on a revenue neutral basis.

¹⁷Comments of SWBT, p. 19, filed April 12, 1996.

Interstate CCL rates should also be reduced by the amount of Long Term Support ("LTS") that will be explicitly recovered from the NUSF.¹⁸ CCL rates will also be reduced to reflect the requirements of the FCC's Payphone Order in CC Docket No. 96-128.¹⁹

Interstate local switching charges for certain ILECs should be reduced by the amount of interstate weighted dial equipment minute ("DEM") support provided explicitly by the NUSF.

2. CCL Must Be Eliminated Through Changes to the Subscriber Line Charge.

Common line costs represent the interstate portion of the subscriber loop costs for connecting the end user's premises with the carrier's switch. A portion of common line costs are recovered through the application of the subscriber line charge ("SLC") to end-users. The remainder of common line costs, subject to price cap constraints, are recovered from IXC's through the application of the CCL charge. As mentioned above, CCL implicitly supports local exchange service. SWBT requests that ILECs be granted the flexibility to eliminate any interstate CCL that remains after it has been adjusted for the effect of NUSF, LTS, payphone, marketing expense, and reallocations to reduce the transport interconnection charge ("TIC"), SWBT proposes initially to recover these remaining interstate common line costs using a flat-rated public policy element billed to IXC's on a presubscribed line basis.²⁰ SWBT proposes to eliminate this public policy element charge over a two year period by incrementally increasing the SLC for residence and single-line business lines. SWBT anticipates nominal SLC increases of approximately \$.65 at the end of year one and \$.65 at the end of the second year.²¹ The SLC for residence and single-line business customers would

¹⁸ILECs that receive weighted DEM support could reduce their interstate local switching charges by the amount of weighted DEM support they explicitly receive from the new federal fund.

¹⁹Released September 20, 1996.

²⁰In the event an end-user does not have a presubscribed carrier, this charge will be billed directly to the end-user.

²¹These amounts do not reflect the effect of receiving interstate support from the federal NUSF.

be capped at \$4.15 as a result of the first increase and capped at a company-wide average rate of approximately \$4.80 after the final increase. Multiline business SLCs, which are currently higher than \$4.80, would be reduced immediately to that same cap.

Additional information concerning these recommended changes is provided in Section IV. A., *infra*.

3. A New End-User Port Charge Will Reduce Local Switching Prices.

Local switching prices currently recover the cost of a port that is dedicated to end-users. The port represents a non-traffic sensitive (“NTS”) cost associated with connecting the end-user's line to the switch matrix. SWBT proposes to recover port costs with a new monthly flat rate end-user charge²² and reduce local switching prices commensurately. SWBT estimates that the new interstate end user port charge will be approximately \$.35 per line per month. Immediate implementation of this change will reduce local switching revenues by approximately \$59 million per year.

4. Marketing Expense Must Be Reallocated Pending Separations Reform.

Currently, approximately \$100 million of marketing-related costs are allocated to interstate services based on an analysis of billed revenues, including interstate access revenues. This methodology has resulted in a significant allocation of marketing expense to the interstate jurisdiction. SWBT proposes to reduce access prices to recognize a more reasoned interstate approach to the recovery of marketing expense. This will result in cost reductions in interstate special access, local switching and transport that should be reflected in reduced prices. Marketing expense costs that would be removed from interstate access prices should be recovered with a public

²²A port is also used in the provision of Feature Group A, and WATS Access lines. A flat rate port charge would also apply to these services as described in Section II.B.2.(b).

policy element until separations reform examines this issue. Public policy element mechanics for separations-related issues are described in Section II.B.

5. The Transport Interconnection Charge and its Underlying Costs Should Be Recovered Through Other Access Rate Elements or Public Policy Elements.

SWBT has identified costs currently recovered by the TIC (which are allocated to interstate by Part 36 and to access by Part 69) that may be more appropriately allocated in other ways. Additionally, there are other costs recovered by the TIC, which, for public policy reasons, should be recovered with a Public Policy element. The table below summarizes these items in the TIC, the magnitude of each and proposed action. Appendix 1 provides detailed descriptions and support that quantify each element and the appropriate method for recovery.

| Item | TIC Reduction | Proposed Action |
|-----------------------------------|----------------------|--|
| Analog Switch Ports | \$17M | Recover via new trunk port charges |
| Common Channel Signaling | \$7M | Recover via new rate elements |
| Tandem Switched Transport | \$8M | Increase common transport rates |
| Host/Remote Configurations | \$14M | Increase common transport rates |
| Central Office Termination Counts | \$21M | Increase special access \$21M |
| COE Maintenance | \$10M* | Decrease CCL \$19M, increase local switching \$16M, decrease special access \$22M, move \$33M to public policy element |
| 80% of Tandem Switching Costs | \$30M | Recover via public policy element |
| Interexchange Cable and Wire | \$5M* | Increase special access \$4M and move \$1M to public policy element |

| | | |
|---|--------|-----------------------------------|
| Transport Averaging, Cost Allocations and Cost Recovery ²³ | \$118M | Recover via public policy element |
|---|--------|-----------------------------------|

* SWBT's proposal removes these costs from access prices. A public policy element would be used to recover these costs until separations reform examines these issues. Public policy element mechanics for separations-related issues is described in Section II.B.

6. Special Access and Dedicated Switched Transport Prices Are Jeopardized by Unbundled Transport Prices.

In the Interconnection Order, the Commission required incumbent LECs to provide unbundled access to shared and dedicated transmission facilities between LEC end offices or between such offices and those of competing carriers. This includes interoffice facilities and facilities between serving wire centers ("SWCs")²⁴ and Interexchange Carrier Points of Presence. In the Interconnection Order, the Commission indicated that existing special access and dedicated switched access transport prices were reasonable cost-based proxies for unbundled transport prices.

Unbundled transport elements as defined by the Commission are direct substitutes for special access and dedicated switched access transport. To the extent states develop rates for unbundled transport that are lower than the special access and dedicated switched transport prices, the disparity could result in significant erosion of access revenues as customers migrate to the unbundled transport elements.

In the NPRM,²⁵ the Commission raised the issue of recovery of LEC revenues lost due to the existence of unbundled elements priced significantly below existing services. If a disparity occurs between special access/dedicated switched access prices and unbundled element transport prices,

²³See SWBT's Comments in CC Docket No. 91-213, Transport Rate Structure and Pricing, filed February 1, 1993, which SWBT hereby incorporates herein.

²⁴Interconnection Order, ¶ 440.

²⁵NPRM, ¶ 248.

the Commission must allow incumbent LECs to lower the access prices to local interconnection levels and to recover the difference through a public policy element.

7. Depreciation Reserve Deficiency Amounts Should Be Recovered and Future Depreciation Rules Should Allow Economic Capital Recovery.

For decades, depreciation lives have been prescribed by the Commission and have not matched economic lives. These policies have resulted in an accumulation of under-depreciated plant. SWBT has calculated a reserve deficiency amount based upon the excess net book value of LEC plant over the net book value that would have existed if depreciation lives had been set at economic levels. The value of SWBT's interstate reserve deficiency is approximately \$463 million. SWBT proposes to amortize this amount over a five year period. SWBT also proposes to recover this annual amortization with a specific capital recovery charge. This charge would be applied to IXCs based upon their three year historical share of interstate access charges paid to SWBT. The annual amount billed to IXCs would be approximately \$93 million. Additionally, the Commission should permit ILECs to set economic depreciation lives on a going forward basis which would prevent any future under-depreciation problems. Appendix 2 provides an economic analysis of depreciation.

B. STEP TWO — CUSTOMER BENEFITS THROUGH COMPETITION – SWBT'S PLAN FOR ACCESS CHARGE PRICING FLEXIBILITY.

A market-oriented flexible pricing structure must be put in place that acknowledges customer needs, the pace at which technology changes and the unlimited supply available from new entrants in the form of unbundled network elements and supply from other providers. In the three and a half years that parties have been actively calling for access reform, the marketplace and technology have changed significantly. The 1996 Act will speed the process of taking competition to all residence and business premises in a much abbreviated timeframe. SWBT's access reform plan recommends

a new regulatory process which recognizes these marketplace realities and delivers the benefits to customers

1. Only Public Policy Elements Should Be Specified in the Commission's Rules.

The Commission's Part 69 rules currently contain the rate element structure of most access services. While some freedom for special access services exists, switched access elements and sub-elements are specifically defined in the rules. Tariffs may not deviate from the structure contained in the rules absent a waiver.²⁶ This has often caused delays in the introduction of new or restructured tariff offerings. This level of rate element specification is inconsistent with advancing technology, an increasingly competitive marketplace and the spirit and intent of the 1996 Act. SWBT proposes that the Commission's rules change to limit codification to only public policy rate elements.

2. The Existing Tariff Structure Must be Modified to Accommodate a Competitive Marketplace.

While SWBT proposes that the Commission change its rules to permit the use of flexible rate structures, the following information describes the changes SWBT would make to its tariffed offerings.

a) Common Line

Currently, multiline business SLC rates are capped at a higher rate than residence and single line business SLCs. Since this difference is not cost based, the distinction between business and residence SLCs should be eliminated. A uniform SLC should be established to allow full recovery of restructured common line cost.

²⁶Adoption of SWBT's proposal will make the Commission's Public Interest Filing contained in the Third Report and Order in CC Docket No. 94-1, Phase II, unnecessary. ¶ 307.

Currently, the jurisdictional separations process allocates 25% of all message subscriber loops to the interstate jurisdiction. This rule also allocates 25% of the cost of unbundled loops to the interstate jurisdiction. SWBT believes the full SLC (approximately \$4.80) should be applied to carriers purchasing unbundled loops to recover these interstate costs. In the event the Commission requires purchasers of unbundled loops to pay only SLCs at a capped level, the flat-rated common line public policy element must also apply.

The development of new services that use derived channels (e.g., ISDN) highlights a problem with regard to application of SLCs. The Commission has interpreted its Part 69 rules to require the application of one SLC per derived channel. To begin to address this problem, it is important to understand the relationship between Part 36 and Part 69. The current Part 36 rules are transparent to technology when assigning lines to the message subscriber loop category. Part 36 message subscriber loop costs are assigned to the Part 69 common line category which in turn requires the application of SLC charges for recovery purposes. Originally, this issue was limited to technology changes that made it possible to increase the capacity of a single common line (e.g., ISDN). However, new technology is making it possible for a line to carry even more capacity by using frame relay or packet-type technology which is not channelized like ISDN. The requirement to charge one SLC per derived channel discourages demand for these advanced services. SWBT recommends the application of a single SLC per common line regardless of technology.

b) Switching

SWBT agrees with the Commission that costs recovered in the minute-of-use ("MOU") based local and tandem switching rates contain both traffic sensitive and non-traffic-sensitive components. As described in Section II.A. *supra*, SWBT proposes to establish an end user port charge to recover the NTS costs associated with dedicated end user connections. This same port

charge should also be charged to carriers that subscribe to Feature Group A Switched Access and WATS Access Line service. Dedicated transport connections in local switches and tandem switches would be recovered by a flat rate trunk port charge assessed to the access customer. Trunk ports used to provide common switched transport between the tandem and end office would continue to be recovered by the existing tandem switching minute of use charge.

SWBT requires the flexibility to recover the traffic sensitive component of the local switch and tandem switch using a fixed call set-up charge and a per minute of use charge.

c) Transport

Currently, dedicated transport is billed on a flat rate basis while common transport is billed on a minute-of-use basis. As an exception to this structure, customers have the option of purchasing tandem switched transport between the SWC and the end office on a minute-of-use basis. SWBT proposes to bill the dedicated SWC to tandem component of tandem switched transport on a flat rate basis, since it is dedicated to a single customer. The transport between the tandem and end office will continue to be billed on a minute-of-use basis. As technology continues to advance (e.g., asynchronous transfer mode ("ATM"), frame relay), flexibility is of the utmost importance because the current access rate structure may not be appropriate for these new technologies (e.g., cells may be more appropriate for ATMs).

Tariff and rate structure distinctions currently exist between dedicated switched access transport and special access transport. These arbitrary distinctions cannot be sustained in a competitive environment. A DS1 entrance facility is exactly the same as a DS1 special access channel termination from a provisioning and functionality standpoint. Typically, a dedicated switched transport DS1 is the same as special access DS1 channel mileage except that the switched transport terminates on a switch port. Separate structures have also caused complex billing

arrangements (ratcheting) on shared use facilities. For these reasons, SWBT proposes to consolidate the dedicated switched transport and special access rate structures.

d) SS7

Currently, local switching, tandem switching and local transport charges recover the cost of the signaling system 7 (“SS7”) platform, signaling transfer point (“STP”) processing and signaling links associated with access services. SWBT proposes to maintain the existing STP port and dedicated signaling link structure contained in its access tariff. Additionally, SWBT plans to install SS7 measurement capability. When this occurs, in addition to existing charges, new elements would be needed to recover signal transport and signal switching associated with switched access services. These new elements should be recovered via usage sensitive charges (e.g., per ISUP, per TCAP, per Octet).

e) Public Policy Elements

As described in this Section, SWBT proposes to establish the following new public policy elements to recover actual costs associated with common line residual, TIC changes, and separations-related costs.

The following chart depicts the costs to be recovered through Public Policy Elements, the approximate levels of those costs, and the billing mechanism for each element.

| Public Policy Element | Amount | Billing Mechanism |
|---|-----------------|--|
| Common Line | \$138 M | Flat rate to IXC's on a presubscribed line basis |
| Separations Circuit Termination Counts COE Maintenance Cable and Wire Marketing Expense | \$134.5M | Flat rate to IXC's based on interstate access revenues paid to SWBT |
| Transport Transport Averaging Tandem Costs | \$148M | Flat rate to IXC's and carriers that use unbundled transport based on interstate transport revenues and unbundled transport element revenues |

3. Pricing Flexibilities Should be Based on Competitiveness of the Market.

In SWBT's territory, some markets will be served by many providers; in others, consumers will have only a few choices. Since markets will vary with regard to topography, size, mix of customers, density, income distributions, and other factors, regulation of these markets must be at least as diverse. As such, a system of decision points for the adoption of additional pricing flexibility and reduced regulation (including deregulation) should focus on the competitive nature of specific markets. SWBT proposes to identify two market categories to describe the degree of competition and the appropriate pricing flexibilities for each market category. Once services satisfy the forbearance requirements of the 1996 Act, deregulation is appropriate.

a) Open Market Category

The Open Market Category identifies those markets in which competition has begun to develop as a result of facilities-based supply. It also identifies those markets into which competitors have not yet entered even though SWBT has made interconnection and unbundled network elements available.

The following components are associated with the Open Market Category of SWBT's plan:

- **Market trigger:** state approved interconnection agreements, or statement of generally-available terms and conditions, that contains provisions for the following:
 - Interconnection
 - Availability of unbundled network elements
 - Service resale
 - Collocation
- **Market area:** state
- **Pricing flexibilities:**
 - Revised price cap basket structure²⁷
 - Two baskets: Network Services and Public Policy
 - Productivity factor in Network Services basket equals zero
 - Productivity factor in Public Policy equals total factor productivity ("TFP") adjusted for restructuring
 - Four service categories in the Network Services basket:
 - Subscriber Line
 - Transport and Tandem Switching with zone pricing
 - Local Switching with zone pricing
 - Database with category pricing
 - The Public Policy basket will contain four service categories with a 0+ upper banding limit
 - Common line public policy element
 - Separations public policy element
 - Transport public policy element
 - Capital recovery charge
 - Flexibility to deaverage local switching and transport prices and any other services where costs vary significantly by density
 - Volume and term pricing

²⁷The revised price cap structure is shown in Appendix 3.